

Message Text

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SUBJ: FOREIGN INVESTMENT CLIMATE - SPAIN

REF : STATE 165596

1. SPAIN'S PRIVATE ENTERPRISE ORIENTED ECONOMY WELCOMES DIRECT FOREIGN INVESTMENT WHICH PROVIDES MUCH OF THE NEW TECHNOLOGY NEEDED BY THE COUNTRY. WITH CERTAIN EXCEPTIONS - ARMAMENTS, PUBLISHING, MOVIES, AND A FEW OTHERS - THERE ARE NO PROHIBITIONS OR LIMITATIONS ON INVESTMENT BY FOREIGNERS IN PARTIALLY OR WHOLLY FOREIGN OWNED ENTERPRISES WHICH ARE ALLOWED TO COMPETE ON AN EQUAL FOOTING WITH DOMESTIC FIRMS.

2. THE GOVERNMENT'S "OPEN-DOOR" POLICY WAS REAFFIRMED IN THE REFORMULATED LAW ON FOREIGN INVESTMENT OF NOVEMBER 1974 WHICH CONSOLIDATED AND MODIFIED THE PLETHORA OF EXISTING REGULATIONS INTO ONE CONVENIENT GUIDE FOR FOREIGN INVESTORS. A BASIC FEATURE OF THE REFORMULATED LAW IS CONTINUANCE OF UNCLASSIFIED

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THE REQUIREMENT FOR CABINET APPROVAL OF INVESTMENTS WHERE

FOREIGN CAPITAL EXCEEDS 50 PERCENT OF THE TOTAL. WHILE AT FIRST GLANCE THIS MAY APPEAR TO BE A BARRIER TO FOREIGN INVESTMENT, IT IS, IN FACT, INTENDED AS A CHECK ON SUPERFLUOUS AND ILL-CONCEIVED ENTERPRISES. PROOF OF ITS RELATIVELY LIGHT IMPACT IS THAT ONLY 6.3 PERCENT (BASED ON VALUE) OF NEW MAJORITY FOREIGN OWNED INVESTMENT PROPOSALS WERE REJECTED IN 1974 WHILE ALL APPLICATIONS FOR INDUSTRIAL INVESTMENTS AND THOSE VALUED AT OVER 100 MILLION PESETAS (APPROX. \$1.8 MILLION) WERE APPROVED. THIS WAS A BETTER ACCEPTANCE RATE THAN THAT FOR NEW DOMESTIC INVESTMENT.

3. SPAIN DOES NOT GRANT SPECIAL FACILITIES TO FOREIGN INVESTORS PER SE, BUT THEY MAY TAKE ADVANTAGE OF ITS INDUSTRIAL DEVELOPMENT SCHEMES. THE TWO MAIN ONES ARE "PREFERENTIAL INTEREST," IN WHICH THE GOVERNMENT GRANTS CERTAIN BENEFITS, SUCH AS REDUCED DUTIES ON IMPORTED CAPITAL EQUIPMENT, IN EXCHANGE FOR EFFORTS TO COMBINE SMALL, INEFFICIENT FIRMS INTO MORE RATIONAL COMPANIES, AND "INDUSTRIAL POLES" WHICH OFFER SEVERAL BENEFITS - GOVERNMENT CREDITS, TAX RELIEF, ETC. - TO FIRMS LOCATING IN LESS DEVELOPED PARTS OF THE COUNTRY. THE LATTER IS MORE ATTRACTIVE FOR NEW FOREIGN INVESTORS.

4. SPAIN HAS NO TAX TREATY WITH THE US. FOREIGN OWNED BUSINESSES ARE SUBJECT TO THE SAME TAXES AS LOCAL FIRMS, BASICALLY TAXES ON CORPORATE PROFITS AND THE BUSINESS TURN-OVER TAX, WHICH TAKEN TOGETHER STILL AMOUNT TO A LIGHTER TAX BURDEN THAN FOUND IN MOST INDUSTRIALIZED COUNTRIES.

5. THE GOVERNMENT WANTS TO IMPROVE THE INFLOW OF FOREIGN CAPITAL, PARTICULARLY NEW AMERICAN INVESTMENT. TO THIS END, SPAIN'S FIVE COMMERCIAL OFFICES IN THE US ARE CONDUCTING AN ACTIVE PROGRAM, FOCUSING ON THE BENEFITS OF INVESTING IN SPAIN, TO RECRUIT PROSPECTIVE INVESTORS.

6. THE GOVERNMENT DOES NOT LIKE FOREIGN PURCHASE OF COMPANIES IN PLACE. HOWEVER, IT RARELY REFUSES TO APPROVE SUCH TAKEOVERS, THE NOTABLE EXCEPTION BEING ITS REFUSAL EARLIER THIS YEAR TO LET GM PURCHASE THE DEFUNCT AUTOMOBILE PLANT ON TERMS WHICH THE GOVERNMENT THOUGHT TOO ADVANTAGEOUS

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TO GM. IT IS ALSO WORRIED ABOUT "EXCESSIVE" PAYMENTS FOR FOREIGN TECHNOLOGY. A DECREE LAW ISSUED IN 1973 REQUIRES ALL TECHNOLOGY TRANSFER AGREEMENTS TO BE REGISTERED WITH THE MINISTRY OF INDUSTRY. PRIOR TO REGISTRATION, EACH AGREEMENT IS RIGOROUSLY EXAMINED AGAINST A SET OF ADVERSE CRITERIA, OFTEN REFERRED TO AS THE "TWELVE SINS."

7. DIRECT INVESTMENT STATISTICS - 1974 (EMBASSY

CALCULATIONS BASED ON DATA OBTAINED FROM THE MINISTRY OF
COMMERCE).

A) US DIRECT INVESTMENT IN SPAIN (BOOK VALUE) AT THE END
OF 1974:

TOTAL	\$1,641,255,000
MINING	(INCLUDED IN "OTHER")
PETROLEUM	146,207,000
MANUFACTURING	1,019,475,000
OTHER	475,574,000

B) DIRECT INVESTMENT BY ALL COUNTRIES IN SPAIN (BOOK VALUE)
AT THE END OF 1974:

TOTAL, INCLUDING US	\$4,194,765,000
SWITZERLAND	903,910,000
WEST GERMANY	513,783,000
FRANCE	288,702,000

C) SPANISH DIRECT INVESTMENT IN US AT END OF 1974:

TOTAL	\$ 13,329,000
STABLER	

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